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C O N F I D E N T I A L SECTION 01 OF 03 CONAKRY 000311

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TAGS: [EMIN](#) [PGOV](#) [PREL](#) [ASEC](#) [GV](#)
SUBJECT: RIO TINTO DOWNSIZES IRON ORE PROJECT

REF: A. CONAKRY 0776
[1](#)B. CONAKRY 0661

Classified By: POL/ECON CHIEF SHANNON CAZEAU FOR REASON 1.4 B AND D

[1](#)1. (C) SUMMARY. Mining giant Rio Tinto has all but halted its multi-billion dollar iron ore mining project in Simandou.

According to the company's local project manager, Rio Tinto based its decision on Guinea's continued lack of political stability. After cutting staff by more than 50% and halting most construction activities, the company has essentially adopted a "wait and see" approach in Guinea. At the same time, Rio Tinto is still investing \$10 million a month in the country, but this money is now primarily targeted towards projects that will build positive relationships with communities around the mines while bolstering the company's image. Rio Tinto is not pulling out despite the significant setbacks it has experienced in recent months. The company's current strategy seems to be one of patiently maintaining a presence in Guinea until it can begin construction again in earnest. END SUMMARY.

[1](#)2. (SBU) Pol/Econ Chief met with Rio Tinto's Country Director for Guinea, Dave Smith, on May 20 to discuss the status of the company's iron ore mining project in Simandou (Forest Region). As the company is downsizing its operation, Dave Smith will permanently leave Guinea at the end of June.

IT'S GUINEA, NOT THE GLOBAL CRISIS

[1](#)3. (C) Smith confirmed rumors that Rio Tinto is downsizing its multi-billion dollar investment in Guinea (reftels). He acknowledged the negative effects of the global economic slowdown, but emphasized that Rio Tinto's decision was more deeply influenced by Guinea's increasingly unstable political environment. Smith pointed out that it actually makes better business sense to invest in a major project during a recession. "Construction costs are at all time lows right now...it would take us four to five years to construct the mine and then just when the mineral market starts to take off again, we would be ready to start producing massive quantities of high quality ore," Smith said.

[1](#)4. (C) According to Smith, recent GoG decisions (reftels), both pre and post coup, have set the Simandou iron project back at least eight years. He explained that Rio Tinto used to have full ownership of the mining concession, which was endorsed both by the National Assembly and by President Conte, as required by law. "It took us years to get that concession and it was only after we got it that we started construction," Smith said. The CNDD's Minister of Mines reportedly told Smith that the GoG would now give Rio Tinto a "lease on the southern part" of the mine and an exploration license. Although Smith admitted that this offer was better

than nothing, he said it ultimately set the company back.
"They gave us an exploration license, but we have been exploring for years. We're ready to mine and we had a legal concession allowing us to do so."

CONTRACT INTERFERENCE

15. (C) Smith attributed the GoG's backtracking to the interference of a Mr. Benny Steinmetz, owner of BSGR (Benny Steinmetz Group Resources). He claimed that Steinmetz is connected to a former Minister of Mines, Kassory Fofana, who is perceived by many to be corrupt and behind the scenes political power broker. According to Smith, Steinmetz has had a number of "damning human rights accusations" filed against him. In addition, he has reportedly issued "bad bonds." Smith said "Steinmetz needs the Simandou lease in order to back his bad bonds and stay out of financial trouble." Smith added that he does not think Steinmetz actually has any intention of mining in Simandou, but rather, is seeking to obtain the concession and then sell it for a big profit.

16. (C) To support his claim, Smith explained that Steinmetz had not done any real exploration in the region, but had managed to convince the GoG that he would build them a transnational railroad, and that the mining project would be up and running within three years. "He hasn't even done a feasibility study, but I'm sure the GoG gave them ours, and he's basing everything on that," Smith said. He added that Steinmetz's company had not yet "sunk a single drill" in the

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region even though he did install three pieces of drilling equipment. Smith noted that Rio Tinto has sixteen drills in operation in Simandou.

WAIT AND SEE

17. (C) Smith said that although the post-coup political situation appears calmer now, Rio Tinto's economic risks have increased. "We are not going to invest \$15 billion in what will potentially be the world's largest mining project in a country where the government could change within eighteen months," Smith said. He said that Rio Tinto is unwilling to negotiate with the current government, especially since there is no guarantee that any negotiation would endure if the CNDD loses power. "We're essentially just in a wait and see mode...even if someone waved a magic wand and gave us the concession back, we would still be facing huge risks, especially if that agreement were to be signed by Dadis," Smith added.

18. (C) As a result, Rio Tinto has already started downsizing its operations in Guinea. One year ago, the company was employing 2,000 people and had expected that number to grow to between 5,000 and 10,000 by 2010. Instead, the company has cut its staff to just 800 and further cuts are expected. Smith said Rio Tinto has also demobilized its drilling fleet as well as most of its earthworks fleet.

19. (C) At the same time, Rio Tinto is not pulling out entirely. Smith said the company wants to maintain a visible presence while building strong relationships with the communities in the Simandou region. "We need to maintain our reputation so that we can easily come back in when the timing is more appropriate," Smith said. As such, the company is still spending approximately \$10 million a month in Guinea, a large portion of which goes to community relations projects. Smith commented that while that amount may seem like a lot of money, in terms of the financial scale of mining operations, it is actually quite small. Smith added that the company is still debating, but will likely bring the monthly expenditure

down to the \$6 to \$7 million range.

THE MANY FACES OF DADIS

¶10. (C) Commenting on his interactions with CNDD President Moussa Dadis Camara, Smith said "I'm currently his best buddy, but he can sway very quickly...he was absolutely charming the last time I saw him, but the next time I see him, he's just as likely to spit in my eye." Smith said he'd been a "player on the Dadis Show" several times, all of which had gone relatively well.

¶11. (C) However, Smith's first interaction was particularly memorable. Smith waited for six hours in Dadis' waiting room at Camp Alpha Yaya. "I had never been shocked by anything I had seen in Guinea until that moment," Smith said. He recounted how he was not only made to wait on Dadis, but so were the prime minister and several ministers of the government. According to Smith, the ministers huddled in a circle and essentially held a cabinet meeting right there in the waiting room. "I got to see how the GoG actually works and it was farcical," Smith said.

¶12. (C) Dadis eventually emerged from his office and then picked Smith out from the crowd and proceeded to shout at him and verbally abuse him for more than ten minutes. Smith said that Dadis had mistaken him for someone else and was railing against him for things that had nothing to do with Rio Tinto. "The funny thing is that all the ministers were standing there and knew exactly who I was...no one bothered to correct Dadis." Once Dadis was done with Smith, he reportedly started in on a number of other people in the room, including ministers. After it was all over, Smith said the ministers patted him on the back and laughed as if it were all a big joke.

COMMENT

¶13. (C) Although Rio Tinto has called a halt to its investment project and is currently downsizing its operations, the fact that the company is not leaving indicates that its managers are hopeful that they will eventually regain their concession and that the political

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situation will settle enough that they can move forward with the project. Certain comments made by Smith during the discussion suggest that Rio Tinto is willing to be patient for awhile. He did not anticipate the political situation resolving itself in a positive way for at least another 18 months. According to Smith, the iron ore in Simandou is of an extraordinary quality, and the project is expected to be highly lucrative. END COMMENT.
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